

UNIVERSITY OF PENNSYLVANIA
The Wharton School

Finance 100
Fall 2009

A. Craig MacKinlay
3255 SH-DH

CORPORATE FINANCE

Course Web Page: <http://finance.wharton.upenn.edu/~acmack>

Course Description:

The purpose of this course is to introduce techniques of financial analysis, with emphasis on topics in the corporate finance area. The concepts developed in Finance 100 form the foundation for all elective finance courses. The main topics covered include (1) the time value of money and the net present value rule; (2) valuation of bonds and stocks; (3) principles of capital budgeting; (4) uncertainty and the tradeoff between risk and return; (5) corporate financing and dividend policy decisions; and (6) capital budgeting decisions under uncertainty.

Course Materials:

Required:

S. A. Ross, R. W. Westerfield and J. F. Jaffe, Corporate Finance, 8th Edition, McGraw-Hill Irwin, 2008. (Referred to as RWJ in course outline.)

Sample exams with solutions (available online).

A scientific or business calculator. (It will be necessary for your calculator to have a x^y function.)

Optional:

Smolira, J., Solutions Manual to accompany Corporate Finance (8th edition), McGraw-Hill Irwin, 2008. (This solutions manual is optional but strongly recommended. It is available in a package with the textbook at the bookstore.)

R. A. Brealey, S. C. Myers, and F. Allen, Principles of Corporate Finance, 9th Edition, McGraw-Hill Irwin, 2008. (Referred to as BMA in course outline.)

S. A. Ross, R. W. Westerfield, J. F. Jaffe, and B. D. Jordan, Corporate Finance: Core Principles and Applications, McGraw-Hill Irwin, 2007. (This text is basically an abbreviated version of the required textbook.)

Evaluation:

The course grade will be based on two midterm exams, a final exam, and several assignments (to be handed in). The weightings are:

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|-------------------------------------|-----|
| Maximum of Midterm I and Midterm II | 10% |
| Midterm Exam II | 35% |
| Final Exam | 45% |
| Assignments | 10% |

The first midterm exam is not optional. Failure to take this exam will result in a score of zero for the 10% allocated to the maximum of midterms I and II.

Schedule of Exams:

| | |
|-----------------|--|
| Midterm Exam I | Monday, October 12, 6:00 pm to 7:30 pm |
| Midterm Exam II | Wednesday, November 11, 6:00 pm to 8:00 pm |
| Final Exam | Wednesday, December 16, 3:00 pm to 5:00 pm |

Please note that there will not be any make-up exams except as required by university policy.

Regrading Policy:

All regrade requests must be made in writing within one week of the day the exams are returned. Any exam submitted for regrading of a question can be subjected to a complete regrading.

Office Hours:

My weekly scheduled office hours will be on Tuesdays from 3:45 to 5:00 unless advised otherwise.

The course teaching assistants will also have office hours scheduled throughout the week. Their schedule will be posted on the course web page.

Course Outline:

I. Introduction.

Readings: RWJ Chapters 1*, 2*, and 3*.
[BMA Chapter 1]

II. The Time Value of Money and NPV.

Readings: RWJ Chapters 4, and 5 (including Appendix pages 5A-1 to 5A-3).
[BMA Chapters 2 – 5]

III. Principles of Capital Budgeting.

Readings: RWJ Chapters 6, 7, and 8*.
[BMA Chapters 6 – 7]

IV. Uncertainty and Financial Decisions.

Readings: RWJ Chapters 9, 10, and 11*.
[BMA Chapters 8 – 9]

V. Capital Budgeting Under Uncertainty.

Readings: RWJ Chapter 12.
[BMA Chapter 10]

VI. Market Efficiency.

Readings: RWJ Chapter 13.
[BMA Chapter 14]

VII. Corporate Financing and Capital Structure.

Readings: RWJ Chapters 14, 15, and 16.
[BMA Chapters 15, 16, 18, and 19]

VIII. Valuation and Capital Budgeting.

Readings: RWJ Chapters 17.
[BMA chapter 20]

IX. Dividend Policy.

Readings: RWJ Chapter 18.
[BMA Chapter 17]

X. Valuation of Options. (Optional topic)

Readings: RWJ Chapters 22 and 23*.
[BMA Chapters 21 – 22]

* Optional reading.

Additional readings will be posted online or distributed in class.